



STATE OF NEW JERSEY

Board of Public Utilities

Two Gateway Center

Newark, NJ 07102

www.bpu.state.nj.us

WATER AND WASTEWATER

IN THE MATTER OF THE PETITION OF)	ORDER ADOPTING INITIAL
MIDDLESEX WATER COMPANY FOR)	DECISION/SETTLEMENT
APPROVAL OF AN INCREASE IN RATES)	
FOR WATER SERVICE AND OTHER)	BPU DOCKET NO. WR03110900
TARIFF CHANGES)	OAL DOCKET NO. PUC 10159-03

(SERVICE LIST ATTACHED)

BY THE BOARD:

On November 5, 2003, pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.11, 14:1-5.12, and 14:9-7.1 et seq., Middlesex Water Company, a public utility of the State of New Jersey (Middlesex or Company), filed a petition with the Board: (1) seeking approval of an increase in rates for water service; (2) seeking approval to establish a Purchased Water Adjustment Clause (PWAC) and to set the base information necessary to implement a PWAC; and (3) seeking approval of the prudence and necessity of a raw water pipeline to be constructed from the Company's existing pump station in New Brunswick to its Carl J. Olsen (CJO) Treatment Plant in Edison.

The Company provides water service on a retail basis to approximately 58,000 customers in the municipalities of South Plainfield, Metuchen, Carteret, Woodbridge, Edison, South Amboy and portions of Clark; on a contractual basis to the Township of Edison, the Boroughs of Highland Park and Sayreville, the Old Bridge Municipal Utilities Authority and the Marlboro Township Municipal Utilities Authority; and on a special contract basis for water treatment and pumping services to the Township of East Brunswick.

The Company's rate request would have resulted in an increase in total Company revenues of \$8,014,874 or approximately 17.82% above the adjusted annual level of revenues for the test year ending December 31, 2003. However, after extensive

settlement discussions, an increase of \$4,287,000 representing a 9.51% increase over current rates, was agreed to by the Parties¹ and is approved herein by this Order.

PROCEDURAL HISTORY

On December 3, 2003, the matter was transmitted to the Office of Administrative Law (OAL) and assigned to Administrative Law Judge (ALJ) W. Todd Miller. A prehearing conference was conducted by ALJ Miller on March 1, 2004.

A public hearing was held on March 29, 2004, in Woodbridge, New Jersey at the Woodbridge High School presided over by ALJ Diana C. Sukovich.² About 30 people attended the public hearing, ten of whom spoke. The ten that spoke (i.e., a state senator, 4 municipal officers and 5 residential customers) voiced their objections to the large rate increase proposed by the Company.

In addition to the Division of the Ratepayer Advocate (RPA), Intervener status was granted to the Marlboro Township Municipal Utilities Authority (MTMUA), Old Bridge Municipal Utilities Authority (OBMUA), Township of East Brunswick (East Brunswick), Borough of Sayreville (Sayreville) and the Borough of South Plainfield (South Plainfield). (Collectively, the Company, RPA, Board Staff (Staff), MTMUA, OBMUA, East Brunswick, Sayreville, and South Plainfield are referred to as the Parties).

Subsequent to the public hearing, the Parties engaged in settlement negotiations on April 19 and 23, 2004. As a result of these discussions, the Parties reached a stipulated settlement of all issues (Stipulation or Settlement).

ALJ Miller issued his Initial Decision recommending adoption of the Stipulation executed by the Parties,³ finding that the Parties had voluntarily agreed to the Settlement and that the Settlement fully disposes of all issues and was consistent with the law.

STIPULATION

As more fully set forth in the attached Stipulation,⁴ the Parties agreed that:

1. The Company's total rate base should be set at \$137,679,117 (Settlement paragraph 1).
2. The return on equity should be set at 9.75%. The Parties have also agreed that this return on equity will result in an overall rate of return of 7.737%, and that the capital structure will not include short-term debt (Settlement paragraph 2).

¹ See Procedural History for description of Parties.

² The OAL arranged for ALJ Sukovich to preside at the public hearing in Woodbridge, NJ.

³ The Borough of Sayreville, in lieu of signing the Stipulation, submitted a letter dated April 29, 2004, stating that Sayreville did not oppose the Settlement.

⁴ Cited paragraphs referenced below are in the Settlement documents. This is only a summary, the full Settlement document controls, subject to the Board's findings and conclusions contained herein.

3. A rate of return of 7.737% would result in an overall additional revenue requirement of \$4,287,000 (Settlement paragraph 3) This amount was calculated as follows:

Rate Base	\$137,679,117
Rate of Return	x 7.737%
Required Operating Income	\$ 10,652,233
Test Year Operating Income	- 8,206,778
Deficiency	2,445,455
Revenue Conversion Factor	x 1.753048
Revenue Requirement	\$ 4,287,000

4. The revenue requirement for Middlesex should be set at \$49,366,317 (\$4,287,000 over present revenues of \$45,079,317) which equates to an approximate 9.51% increase. The Parties agree that this level of revenue is necessary to ensure that the Company will continue to provide safe, adequate, and proper water service to its customers (Settlement paragraph 4).
5. The tariffs attached to the Stipulation, implementing the terms of this Stipulation, should be adopted by the Administrative Law Judge and the Board in their entirety. The tariffs reflect an across the board increase of 9.51% for all services and classes of customers, except that the public fire protection revenues shall be increased 9.51% for public fire protection as a class of customers. This increase has been reflected in rates by increasing hydrant charges only while inch-foot charges remained unchanged (Settlement paragraph 5).
6. The rates set here are necessary pursuant to N.J.A.C. 14:9-7.1 et seq. to permit the Company to implement a purchased water adjustment clause. Those specific findings are contained in Schedule C of the Stipulation (Settlement paragraph 6)
7. The Company has established that an additional raw water line from the Company's existing Raw Water Pump Station in New Brunswick to its CJO Treatment Plant in Edison, New Jersey is necessary and prudent. Therefore, the Parties agree that the need for the pipeline has been conclusively determined in this proceeding. The Parties further agree that the cost of this additional raw water line, when constructed, may be reviewed by the Board in a future proceeding, but that the prudence of the expenditures related to the pipeline will be the only issue open for determination in that proceeding, the need having been determined in this case (Settlement paragraph 7).
8. The Company will commit to undertake a systematic study of the potential opportunities for conservation and water reuse throughout its service territory (Conservation Study). However, due to the needed focus over the next year on the raw water pipeline, the Company has agreed to comply with the following timetable for these activities:
- a. To commence the study as soon as feasible after the effective date of the Board's Order in this rate case;

- b. To provide a copy of a draft of the study to Board staff and the other Parties, subject to confidentiality protections if applicable, by May 1, 2006.
- c. To complete the study no later than July 1, 2006, assuming that agreement can be reached and that all comments by Staff and other Parties are received promptly and do not require additional field work. The Company also agreed that in the formulation of the Conservation Study the Company will identify balanced initiatives whose goal will be to maximize the conservation of potable water use. The Conservation Study shall include analysis of the level of conservation initiative that may be reasonably obtainable and the time frame necessary to attempt reasonably to attain the identified initiatives. The study shall investigate the feasibility of water reuse and will include an analysis of seasonal water use, and an attempt to identify customers who are willing to work with the Company to assess whether they use potable water for uses for which non-potable water could be employed, taking into account technical and economic practicability. The Company further agreed that, in the formulation of the Conservation Study, it will include consideration of the following:
 - I. Defining the conservation efforts, and their costs, that will maximize potential benefits to users – e.g., odd/even watering.
 - II. Focusing on the economics of reuse and the development of infrastructure to construct a reuse system.

Additionally, the Company agreed to consider the inclusion of a new tariff page that will provide language to establish, on a pilot basis, terms and conditions for separate categories of usage for residential and commercial water usage. These proposals may include a special seasonal rider to the General Metered Service tariff for both residential and commercial customers, if possible, which would provide for indoor and outdoor (odd/even watering and swimming pool) usage. However, the intent of these discussions is to afford as much information as possible to the Board to research the costs and advisability of any proposed tariff and on what basis to establish such terms and conditions in a tariff in the next rate case (Settlement paragraph 8).

- 9. The Company will commit to undertake the formulation of a long term master plan, to develop a least cost strategy to economically satisfy the long term needs of the Company's customers consistent with the continued provision of safe and adequate service (Long Term Planning Study). The Company agreed:
 - a. To commence the study as soon as feasible after the effective date of the Board decision in this rate case.
 - b. To provide a copy of a draft of the study to Board Staff and the other Parties, subject to confidentiality protections if applicable, by August 1, 2006.
 - c. To complete the study no later than October 1, 2006, assuming that agreement can be reached and that all comments by Staff and other parties are received promptly and do not require additional field work.

Subject to confidentiality protections, if applicable, when the study is completed, a copy will be provided to Board Staff and the Ratepayer Advocate, and an executive summary will be provided to the Parties who are signatories to this

Stipulation. The Company agreed that in the formulation of the Long Term Planning Study, it will include but not be limited to consideration of the following:

- I. An analysis of system growth, by planning area, where feasible, wherein “planning area” has the meaning assigned by the Office of State Planning.
 - II. An evaluation of initiatives to support Smart Growth;
 - III. A system map identifying planning areas, where feasible;
 - IV. Other concepts as the Company believes necessary (settlement paragraph 9).
10. In cooperation with the Board's Report Card Initiative, the Company agreed to work with Board Staff and the Ratepayer Advocate to track some, or all, of the following measures of service responsiveness:
- I. Customer complaints and comments, and
 - II. Measurement of billing accuracy (settlement paragraph 10).
11. The Parties are aware of the low income initiative instituted pursuant to the Board's Order in Docket No. WR03070510. The Company agreed that it will review any report provided to it by Board Staff resulting from that initiative and will confer with the Board Staff and the Ratepayer Advocate concerning an appropriate low income program for its customers (Settlement paragraph 11).
12. The Company recognizes the importance of energy management and the resultant reductions in related energy costs. The Company is encouraged to develop a comprehensive strategy toward energy management in the near term to address (settlement paragraph 12):
- a. The relationship between Company operations (e.g. source/pump selection and pumping sequencing) and the energy supplier tariffs and contract rates;
 - b. The availability of financial assistance, including production tax credits, for the installation and operation of alternative and renewable fuel generation equipment (including the solar project now under consideration);
 - c. The installation and use of limited on-site generating capacity to shave peaks and reduce on-peak demand charges; and
 - d. The sufficiency of the Company's programmed and preventative maintenance systems as these may affect the efficacy of energy consuming devices and equipment.

DISCUSSIONS AND FINDINGS

The Board, having reviewed ALJ Miller's Initial Decision and the stipulation, FINDS That the Parties have voluntarily agreed to the stipulation and that the stipulation fully disposes of all issues, in this proceeding and is consistent with the law. The Board FINDS the stipulation to be reasonable and in the public interest. The Board HEREBY ADOPTS the Initial Decision and the stipulation attached hereto as its own incorporating

by reference the terms and conditions as if fully set forth at length herein, subject to the following:

- a. The Company's total rate base shall be \$137,697,117.
- b. The return on equity shall be 9.75% resulting in a rate of return of 7.737%, and that the capital structure shall not include short-term debt.
- c. The overall rate of return of 7.737% shall result in an overall additional revenue requirement of \$4,287,000.
- d. The revenue requirement for Middlesex shall be \$49,366,317, based on a 7.737% rate of return (incorporating a 9.75% return on equity). The resulting increase is \$4,287,000 over present revenues of \$45,079,317 which equates to an approximate 9.51% increase. This revenue shall ensure that the Company shall continue to provide save, adequate, and proper water services to its customers.
- e. The tariffs attached to the Stipulation, implementing the terms of the Stipulation, is hereby adopted by the Board in their entirety. The tariffs reflect an across the Board increase of 9.51% for all services. The public fire protection increase has been reflected in the hydrant charges only and not in the inch-foot charges.
- f. This filing resulted in the establishment of base rates in a base rate proceeding within the meaning of the applicable Purchased Water Adjustment Clause (PWAC) regulations N.J.A.C. 14:9-7 et seq.
- g. The Company has established that additional raw water line from the Company's existing Raw Water Pump Station in New Brunswick to its CJO Treatment Plant in Edison, New Jersey is necessary and prudent. The Board finds that the agreement of the parties to the effect that the need for the pipeline has been established in the proceeding, binds only the parties hereto and is not binding on the Board or any non-party to this proceeding.
- h. The Company shall undertake a systematic study of the potential opportunities for conservation and water reuse throughout its service territory (Conservation Study). The Company shall:
 - a. Commence the study as soon as feasible after the effective date of the Board's Order in this rate case;
 - b. Provide a copy of a draft of the study to Board Staff and the other Parties, subject to confidentiality protections if applicable, by May 1, 2006.
 - c. Complete the study no later than July 1, 2006, assuming that agreement can be reached and that all comments by Staff and other Parties are received promptly and do not require additional field work.

In the formulation of the Conservation Study, the Company shall identify balanced initiatives whose goal shall be to maximize the conservation of potable water use. The Conservation Study shall include an analysis of the level of conservation initiative that may be reasonably obtainable and the time frame necessary to reasonably attain the

identified initiatives. The study shall investigate the feasibility of water reuse and will include an analysis of seasonal water use, and an attempt to identify customers who are willing to work with the Company to assess whether they use potable water for uses for which non-potable water could be employed, taking into account technical and economic practicability.

The Company, in the formulation of the Conservation Study, shall include the following:

- i. Conservation efforts, and their costs, that will maximize potential benefits to users, and
- ii. Economics of reuse and the development of infrastructure to support a reuse system.

Additionally, the Company shall include a new tariff page that will provide language to establish, on a pilot basis, terms and conditions for separate categories for residential and commercial water usage. These proposals may include a special seasonal rider to the General Metered Service tariff for both residential and commercial customers, if possible, which would provide for indoor and outdoor usage. However, the intent of these discussions is to afford as much information as possible to the Board to research the costs of advisability of any proposed tariff and on what basis to establish such terms and conditions in a tariff in the next rate case.

- i. The Company shall undertake the formulation of a long term master plan, to develop a least cost strategy to economically satisfy the long term needs of the Company's customers consistent with the continued provision of safe and adequate service (Long Term Planning Study). The Company shall:
 - a. Commence the study as soon as feasible after the effective date of the Board decision in this rate case.
 - b. Provide a copy of a draft of the study to Board Staff and the other Parties, subject to confidentiality protections if applicable, by August 1, 2006.
 - c. Complete the study no later than October 1, 2006, assuming that agreement can be reached and that all comments by Staff and other parties are received promptly and do not require additional field work.

Subject to confidentiality protections, if applicable, when the study is completed, a copy shall be provided to Board Staff and the Ratepayer Advocate, and an executive summary shall be provided to the Parties who are signatories to this Stipulation. The Company shall, in the formulation of the Long Term Planning Study, include but not be limited to consideration of the following:

- a. An analysis of system growth, by planning area⁵, where feasible, wherein “planning area”⁶ has the meaning assigned by the Office of State Planning;
 - b. Evaluation of initiatives to support Smart Growth.
 - c. System map identifying planning areas, where feasible, and (d) other concepts as the Company believes necessary.
- j. In cooperation with the Board’s Report Card Initiative, the Company shall work with Board Staff and the Ratepayer Advocate to track measures of service responsiveness consistent with the Report Card requirements.
- k. The Company shall confer with the Board Staff and the Ratepayer Advocate concerning an appropriate low income program for its customers.
- l. The Company recognizes the importance of energy management and the resultant reductions in related energy costs. The Company shall work towards the development of a comprehensive strategy for energy management in the near term to address:
- a. The relationship between Company operations (e.g. source/pump selection and pumping sequencing) and the energy supplier tariffs and contract rates;
 - b. The availability of financial assistance, including production tax credits, for the installation and operation of alternative and renewable fuel generation equipment (including the solar project now under consideration);
 - c. The installation and use of limited on-site generating capacity to shave peaks and reduce on-peak demand charges; and
 - d. The sufficiency of the Company’s programmed and preventative maintenance systems as these may affect the efficiency of energy consuming devices and equipment.

⁵ Planning is to be coordinated with local, county and state authorities.

⁶ See New Jersey Development and Redevelopment Plan definitions: Areas for Growth; Metropolitan Planning Areas (Planning Area 1), Suburban Planning Areas (Planning Area 2) and Designated Centers in any planning area. Areas for Limited Growth: Fringe Planning Areas (Planning Area 3), Rural Planning Areas (Planning Area 4), and Environmentally Sensitive Planning Areas (Planning Area 5). In these planning areas, planning should promote a balance of conservation and limited growth-environmental constraints affect development and preservation is encouraged in large contiguous tracts. Areas for Conservation: Fringe Planning Areas (Planning Area 3), Rural Planning Areas (Planning Area 4), and Environmentally Sensitive Planning Areas (Planning Area 5).

The Board HEREBY ORDERS the Company to submit a complete revised tariff conforming to the terms and conditions of this Order within ten (10) days from the date of this Order.

DATED: **5/27/04**

BOARD OF PUBLIC UTILITIES
BY:

(SIGNED)

JEANNE M. FOX
PRESIDENT

(SIGNED)

FREDERICK F. BUTLER
COMMISSIONER

(SIGNED)

CAROL J. MURPHY
COMMISSIONER

(SIGNED)

CONNIE O. HUGHES
COMMISSIONER

(SIGNED)

JACK ALTER
COMMISSIONER

ATTEST:

(SIGNED)
KRISTI IZZO
SECRETARY

IN THE MATTER OF THE PETITION OF
MIDDLESEX WATER COMPANY
FOR APPROVAL OF AN
INCREASE IN RATES FOR SERVICE

BPU DOCKET NO. WR03110900
OAL DOCKET NO. PUC 10159-03

SERVICE LIST

Stephen B. Genzer, Esq.
LeBoeuf, Lamb, Greene & McRae
One Riverfront Plaza
Newark, NJ 07102-5490

Debra Robinson, Esq.
Susan McClure, Esq.
Division of the Ratepayer Advocate
31 Clinton Street, 11th Floor
P.O. Box 46005
Newark, NJ 07101

Carla V. Bello, SDAG
Bhavetta Kapoor, DAG
Department of Law and Public Safety
Division of Law
124 Halsey St. 5th Fl.
P.O. Box 45029
Newark, NJ 07102

Walter W. Cota
New Jersey Division of Taxation
Public Utilities Tax Section
50 Barrack Street
P.O. Box 246
Trenton, NJ 08625-0246

Colleen Flynn-Antonis, Esq.
Antonio & Flynn, PC
18 Throckmorton Lane, Suite 209
Old Bridge, NJ 08857

Kenneth J. Quinn, General Counsel
Middlesex Water Company
1500 Ronson Road
P.O. Box 1500
Iselin, NJ 08830-0452

Dr. Fred Grygiel, Chief Economist
Dante Mugrace, Chief
Board of Public Utilities
2 Gateway Center
Newark, NJ 07102

Peter Wersinger, III, Esq.
Heffernan & Wersinger
9 South Main Street
Marlboro, NJ 07746

Kevin A. Conti, Esq.
DeCotiis, Fitzpatrick, Cole & Wisler, LLP
Glenpointe Centre West
500 Frank W. Burr Blvd.
Teaneck, NJ 08830

L. Mason Neely, CFO
Twp. Of East Brunswick
1 Jean Walling Civic Center
East Brunswick, NJ 08816-1081

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MIDDLESEX WATER COMPANY
FOR APPROVAL OF AN
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SERVICE LIST CONTINUED

Patrick Diegnan, Esq.
2443 Plainfield Avenue
P.O. Box 736
South Plainfield, NJ 07080

Michael Baker, Esq.
Hoogland, Longo, Moran, Dunst & Doukas
40 Paterson Street
New Brunswick, NJ 08903